

AR09

K I L E M B E
COPPER COBALT LTD.

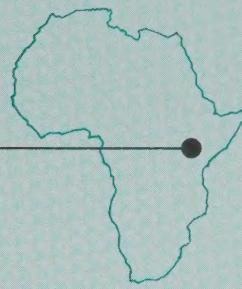


annual report
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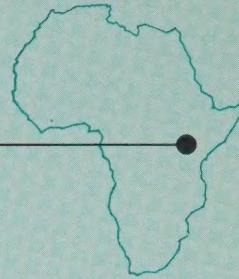
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REVIEW IN BRIEF

	<u>1973</u>	<u>1972</u>
Tons milled	821,000	907,000
Grade ore milled %		
Copper	1.89	1.73
Blister copper produced —		
metric tons	9,692	14,168
Sales of metals	\$15,174,000	\$15,224,000
Net earnings (loss)	\$ 1,407,000	\$(331,000)
Earnings (loss) per share	\$.36	\$ (.09)
Capital expenditures . . .	\$ 51,000	\$ 254,000
Working capital	\$ 7,916,000	\$ 5,639,000
Average selling price, cop- per per pound	71.0¢	48.7¢



HEAD OFFICE

P.O. Box 40, Commerce Court West, Toronto, Canada

OFFICERS

G. T. N. WOODROFFE	-	-	-	-	-	President
G. P. MITCHELL	-	-	-	-	-	Vice-President
A. C. CALLOW	-	-	-	-	-	Secretary
J. D. KRANE	-	-	-	-	-	Treasurer & Controller
J. F. GILLIES	-	-	-	-	-	Assistant-Treasurer

DIRECTORS

E. L. HEALY JAMES HOLMES
G. P. MITCHELL J. R. SMITH
G. T. N. WOODROOFFE

TRANSFER AGENTS AND REGISTRARS

CROWN TRUST COMPANY
302 Bay Street, 393 St. James St. West
Toronto, Ontario Montreal, Quebec

REGISTRAR AND TRANSFER COMPANY
140 Cedar Street - - - New York 7, N.Y.

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE
Toronto, Ontario

AUDITORS

CLARKSON, GORDON & Co., Toronto, Ontario

SOLICITORS

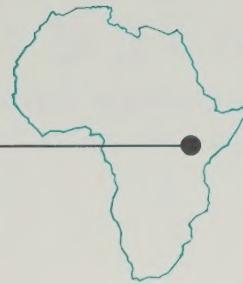
TILLEY, CARSON & FINDLAY - Toronto, Ontario

KILEMBE MINES

Kilembe, Uganda
Managing Director - - - M. D. CRUICKSHANKS

ANNUAL MEETING OF SHAREHOLDERS

Wednesday, May 29, 1974 at 11:30 a.m. (E.D.S.T.)
Elizabeth Room, King Edward Sheraton Hotel
Toronto, Canada



REPORT OF THE DIRECTORS

To the Shareholders:

Despite production and smelter problems referred to in the following paragraphs, financial results for 1973 were improved reflecting higher copper prices.

FINANCIAL

The consolidated earnings of the Company and its subsidiary, Kilembe Mines Limited, improved to \$1,407,000 or 36 cents per share from a loss of \$331,000 or 9 cents per share in 1972. The largest factor contributing to the increased earnings was that the average price received for blister copper during 1973 which was the equivalent of 71 cents per pound, a considerable increase from 48.7 cents per pound during 1972. Due to the lower production, a build up of concentrate inventory between the mill and the smelter and a decrease in staff, operating and administration costs decreased to \$9,302,000 from \$12,149,000 in the previous year. Because of increased profits, royalties and taxes increased to \$1,337,000 from \$366,000.

Working capital increased by \$2,277,000 to \$7,916,000. The operations of the Company provided \$3,562,000 of which \$51,000 were applied to the purchase of fixed assets and \$582,000 to the payment of dividends. Metal inventories (copper on hand and in process) increased because of the failure of the smelter to operate fully during the last half of the year.

KILEMBE MINES LIMITED

In December the company received authorization from the Uganda Government to continue mining operations after December 31, 1973, on the properties covered by the Special Mining Lease, pending formal renewal of the lease.

ORE RESERVES

Additions of new ore during the year replaced 401,824 tons of the 828,424 metric tons mined, resulting in a reduction of total reserves of 426,600 metric tons. Significant additions to reserves were made in the Bukangama deposit below the 5900-foot level.

	December 31		December 31	
	1973	%	1972	%
	Metric Tons	Copper	Metric Tons	Copper
Proved	4,173,800	1.98	5,214,700	1.92
Probable	1,126,900	1.84	512,600	2.50
	<u>5,300,700</u>	<u>1.95</u>	<u>5,727,300</u>	<u>1.97</u>

In addition it is estimated that there are 784,800 metric tons of possible ore grading 1.78 per cent copper.

EXPLORATION AND DEVELOPMENT

Development progress was generally satisfactory involving 5,371 metres compared to 8,492 metres in 1972.

Lateral development on the lower levels of the Eastern deposit below the 4050-foot level was largely completed.

Work in the Buhunga deposit was concentrated on the 4150-foot level in order to open up the large area of relatively narrow, flat undulating ore.

Results from the development of the lower Bukangama deposit were again encouraging.

A total of 16,780 metres of diamond drilling was completed during the year compared to 24,026 metres in 1972.

EXPENDITURES ON FIXED ASSETS

Expenditures on construction and replacement of fixed assets were further reduced from U£91,197 (Can. \$253,758) reported for 1972. The expenditures in 1973 consisted of U£6,300 (Can. \$18,475) on smelting equipment and U£10,991 (Can. \$32,232) on general equipment.

PRODUCTION

General

Production from the mine was some 9 per cent below that of the previous year for a number of reasons. At all levels there was a shortage of staff with the requisite mining experience and management skills required to resolve difficulties associated with the Kilembe ore bodies. There were serious shortages and at times complete non-availability of numerous stores and supplies normally obtainable locally. Extended times for the receipt of overseas stores created particular difficulties in certain areas such as locomotive batteries.

Mining

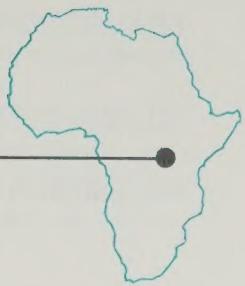
Mine delivery of 828,424 metric tons of ore averaging 1.89 per cent copper represented a decline of some 9 per cent from 909,642 metric tons averaging 1.73 per cent copper delivered in 1972.

Milling

At the concentrator 821,153 metric tons grading 1.89 per cent copper were treated, a decrease of 9½ per cent from 907,287 metric tons of 1.73 per cent copper treated in the previous year.

Smelting

Serious troubles developed at the smelter in Jinja including breakdowns of furnace ancillary equipment and premature converter lining failures, as a result, the production of blister copper for each of the months from August to the end of the year was substantially below the normal output. The smelter has been very hard hit by the shortage of competent, experienced supervisory and maintenance staff. In spite of the commendable efforts of our Manager and all employees it was not possible to operate the plant at near capacity levels. A series of furnace runouts occurred in the last four months



culminating in a partial furnace arch collapse in December. As a result the production for the year was inordinately low at 9,692 metric tons compared to 14,168 metric tons in 1972.

EXPENDITURES IN UGANDA

Cash expenditures for operating and capital account during 1973 totalled U£ 3,244,572 (Can. \$9,201,607) of which expenditures made in Uganda consisted of the following:

	Uganda Currency	Canadian Equivalent
Wages	U£ 1,500,500	\$4,255,418
Purchases from local suppliers and contractors	897,490	2,545,282
Payment to Government agencies for electricity, freight, telephones, licenses, etc.	407,930	1,156,889
	<u>U£ 2,805,920</u>	<u>\$7,957,589</u>

In addition, Uganda taxes and royalties amounted to U£ 429,588 (\$1,218,311).

COBALT PROJECT

Test work is in progress to produce data for detailed plant design for a cobalt facility which would be located at Kasese, Uganda.

OUTLOOK

Further repairs to the furnace at the smelter, commenced in December and carried through January, have enabled the furnace to be put back into operation at a low rate. During succeeding weeks the heat has been built up gradually with the objective of reaching a production rate of 1,000 tons of blister copper per month. By April, 1974, a weekly production rate of over 200 tons was being achieved.

KILEMBE COPPER COBALT LTD.

DIVIDEND

One dividend of 15 cents per share was paid in July of 1973.

ACKNOWLEDGEMENT

Your directors record their deep appreciation of the outstanding efforts of the Managing Director, staff and all employees at Kilembe under most difficult conditions during the past year.

On behalf of the Board,

G. T. N. WOODROFFE,
President.

Toronto, Ontario.
April 24, 1974.

BALANCE SHEETS

(with comparative figures)

ASSETS

Unconsolidated	
1972	1973
\$ 509,086	\$ 726,629
3,457	17,534
	583,338
<hr/>	<hr/>
512,543	1,327,501
<hr/>	<hr/>
7,718,927	7,730,354

CURRENT:

Cash and temporary investments thereof at cost which approximates market value	\$ 818,779	\$ 1,080,632
Metal settlements receivable (note 1(c))	2,942,660	1,525,659
Accounts receivable and deposits	543,546	134,716
Dividends receivable from subsidiary		
Copper on hand and in process (note 1(c))	3,124,145	249,328
Materials and supplies inventory, at the lower of cost and replacement cost	4,122,021	4,271,432
<hr/>	<hr/>	<hr/>
Total current assets	11,551,151	7,261,767

Investment in subsidiary, Kilembe Mines Limited (note 1(d))

Consolidated	
1973	1972
\$ 818,779	\$ 1,080,632
2,942,660	1,525,659
543,546	134,716
3,124,145	249,328
4,122,021	4,271,432
<hr/>	<hr/>
11,551,151	7,261,767

FIXED AND INTANGIBLE ASSETS (note 1(d)):

Plant and equipment, at cost	31,825,774	31,775,067
Less accumulated depreciation	27,372,873	25,875,395
<hr/>	<hr/>	<hr/>
4,452,901		5,899,672
	1	1
	4,452,902	5,899,673
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\$16,004,053		\$13,161,440

(See notes to financial statements)

AUDITOR

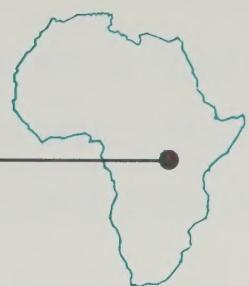
To the Shareholders of
Kilembe Copper Cobalt Ltd.:

We have examined:

- (a) the unconsolidated balance sheet of Kilembe Copper Cobalt Ltd. as at December 31, 1973 and the statements of earnings and deficit and changes in financial position for the year then ended, and
- (b) the consolidated balance sheet of Kilembe Copper Cobalt Ltd. and its subsidiary Kilembe Mines Limited at December 31, 1973 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended.

Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As explained in note 2 to the financial statements, the company is negotiating for a renewal or extension in the term of the lease covering the mining concessions on reasonable terms.



DECEMBER 31, 1973

(December 31, 1972)

LIABILITIES AND SHAREHOLDERS' EQUITY

Unconsolidated		Consolidated	
1972	1973	1973	1972
CURRENT:			
\$ 900	\$ 1,709	Accounts payable and accrued charges	\$ 2,344,968
		Dividends payable to minority shareholders	250,002
		Provision for Uganda mining royalties and income taxes (note 3)	1,039,920
900	1,709	Total current liabilities	3,634,890
		Minority shareholders' interest in subsidiary (30%)	3,313,017
SHAREHOLDERS' EQUITY:			
Capital —			
Authorized:			
5,000,000 shares of \$1 par value			
Issued:			
3,877,027	3,877,027	3,877,027	3,877,027
8,193,887	8,193,887	8,193,887	8,193,887
(3,840,344)	(3,014,768)	(3,014,768)	(3,840,344)
8,230,570	9,056,146	9,056,146	8,230,570
\$8,231,470	\$9,057,855	Total shareholders' equity	
		On behalf of the Board:	
		G. T. N. WOODROOFFE, Director.	
		G. P. MITCHELL, Director.	
		Total liabilities and shareholders' equity	\$16,004,053
			\$13,161,440

al statements)

REPORT

Because of the significance of these negotiations to the financial position as at December 31, 1973 and the statements of earnings and deficit and changes in financial position for the year then ended, we are not in a position to express an opinion on the overall fairness of the financial statements.

However, if the negotiations for a renewal or extension in the term of the lease covering the mining concessions on reasonable terms are successful, then, in our opinion, on a going concern basis, the financial statements referred to above present fairly the respective financial positions, results of operations and changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 13, 1974.

CLARKSON, GORDON & CO.,
Chartered Accountants.

KILEMBE COPPER COBALT LTD.

AND

KILEMBE COPPER COBALT LTD.

AND ITS SUBSIDIARY

KILEMBE MINES LIMITED

STATEMENTS OF EARNINGS AND DEFICIT

For the Year Ended December 31, 1973

(with comparative figures for 1972)

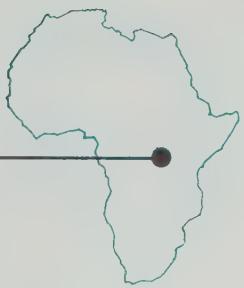
E A R N I N G S

<u>Unconsolidated</u>		<u>Consolidated</u>	
<u>1972</u>	<u>1973</u>	<u>1973</u>	<u>1972</u>
	Revenue from metal production	\$15,173,998	\$15,224,431
	Deduct transportation, refining and selling expenses	1,436,360	1,299,080
	Net revenue from metal production	<u>13,737,638</u>	<u>13,925,351</u>
	Operating and other expenses (revenues):		
\$ 75,504	\$ 75,926		
169,179	(1,533,906)	Development, mining, milling, smelting and administration costs	9,301,826 12,148,766
105,231		Depreciation	1,497,478 1,581,429
(23,929)	(56,957)	Share of subsidiary's (earnings) loss (note 1(d))	
5,235	(10,445)	Prospecting and exploration expenses	214,350
	118,255	Interest income	(131,957) (23,929)
		(Profit) loss on foreign exchange	(330,791) 42,172
		Provision for Uganda mining royalties and income taxes (note 3)	1,336,566 366,288
			<u>11,673,122</u> <u>14,329,076</u>
(331,220)	1,407,127	Earnings (loss) before minority shareholders' interest	<u>2,064,516</u> <u>(403,725)</u>
		Less minority shareholders' interest in earnings (loss) of subsidiary	657,389 (72,505)
\$ (331,220)	\$ 1,407,127	Earnings (loss) for the year	<u>\$ 1,407,127</u> <u>\$ (331,220)</u>
<u>(9¢)</u>	<u>36¢</u>	Earnings (loss) per share	<u>36¢</u> <u>(9¢)</u>

D E F I C I T

\$ (3,509,124)	\$ (3,840,344)	Deficit, beginning of the year	\$ (3,840,344)	\$ (3,509,124)
(331,220)	1,407,127	Earnings (loss) for the year	1,407,127	(331,220)
	(581,551)	Dividends paid — 15¢ per share		(581,551)
\$ (3,840,344)	\$ (3,014,768)	Deficit, end of year	\$ (3,014,768)	\$ (3,840,344)

(See notes to financial statements)



STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Year Ended December 31, 1973
 (with comparative figures for 1972)

<u>Unconsolidated</u>		<u>Consolidated</u>	
<u>1972</u>	<u>1973</u>	<u>1973</u>	<u>1972</u>
FUND'S WERE PROVIDED BY (APPLIED TO):			
\$ (331,220)	\$ 1,407,127	\$ 1,407,127	\$ (331,220)
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(331,220)	1,407,127	657,389	(72,505)
<hr/>	<hr/>	<hr/>	<hr/>
169,179	<hr/>	1,497,478	1,581,429
(162,041)	<u>1,407,127</u>	<u>3,561,994</u>	<u>1,177,704</u>
<hr/>	<hr/>	<hr/>	<hr/>
Reduction in the investment in subsidiary arising from the loss in the year			
		Total funds provided by (applied to)	3,561,994
			<u>1,177,704</u>
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FUND'S WERE APPLIED TO:			
		Purchase fixed assets (net)	50,707
		Earnings of subsidiary in excess of dividends	253,758
11,427	<hr/>	Pay dividends to minority shareholders	652,492
<hr/>	<hr/>	Pay dividends to shareholders	581,551
581,551	<hr/>	Total funds applied	1,284,750
<hr/>	<hr/>	Increase (decrease) in working capital	253,758
592,978	<hr/>		
\$ (162,041)	<u>\$ 814,149</u>	<u>\$ 2,277,244</u>	<u>\$ 923,946</u>
<hr/>	<hr/>	<hr/>	<hr/>
CHANGES IN COMPONENTS OF WORKING CAPITAL:			
		Increase (decrease) in current assets —	
\$ (192,986)	\$ 217,543	Cash and temporary investments thereof	\$ (261,853) \$ (454,081)
(1,783)	14,077	Metal settlements receivable	1,417,001 688,500
<hr/>	<hr/>	Accounts receivable	408,830 (115,283)
583,338	<hr/>	Dividends receivable from subsidiary	
<hr/>	<hr/>	Copper on hand and in process	2,874,817 75,642
(194,769)	<u>814,958</u>	Material and supplies inventory	(149,411) (334,895)
<hr/>	<hr/>		
(32,728)	809	4,289,384 (140,117)	
<hr/>	<hr/>	<hr/>	<hr/>
		Increase (decrease) in current liabilities —	
		Accounts payable and accrued charges	1,234,125 (374,741)
(32,728)	809	Dividends payable to minority shareholders	250,002
<hr/>	<hr/>	Provision for Uganda mining royalties and income taxes	528,013 (689,322)
<hr/>	<hr/>		
(162,041)	814,149	2,012,140 (1,064,063)	
673,684	511,643	2,277,244 923,946	
\$ 511,643	<u>\$ 1,325,792</u>	<u>5,639,017</u> 4,715,071	
<hr/>	<hr/>	<hr/>	<hr/>
		Working capital, end of the year	\$ 7,916,261 \$ 5,639,017

(See notes to financial statements)

KILEMBE COPPER COBALT LTD.

AND

KILEMBE COPPER COBALT LTD.

AND ITS SUBSIDIARY

KILEMBE MINES LIMITED

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1973

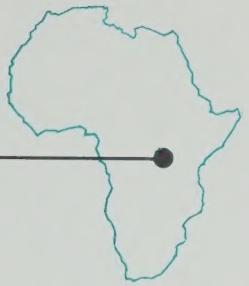
1. ACCOUNTING POLICIES

The following is a summary of certain significant accounting policies followed in the preparation of the consolidated financial statements. The policies conform to generally accepted accounting principles and have been applied consistently:

- (a) The consolidated financial statements include the accounts of Kilembe Mines Limited, a 70% owned company.
- (b) Most of the income of Kilembe Mines Limited has been received in U.S. dollars and the expenditures have been incurred in pounds sterling or in Uganda currency. Assets and liabilities and revenues and expenses in currencies other than Canadian dollars are translated into Canadian funds on the following bases:
- | | |
|--|---|
| Fixed and intangible assets and share capital. | At the rates of exchange prevailing when the transactions giving rise to such items occurred. |
| Accumulated and current year's provisions for depreciation and amortization. | At rates of exchange prevailing when the expenditures on the related fixed and intangible assets were made. |
| Other assets and liabilities. | At the closing rates of exchange prevailing at the end of the year. |
| Revenues and expenses other than depreciation and amortization. | At the average of monthly rates of exchange in effect during the year. |
- (c) Copper on hand and in process consists of copper concentrates in production between the mill and the completion of the smelter operation. These inventories are priced at the lower of cost and estimated realizable value, the latter based on the delivered price of refined copper less transportation, refining, selling and smelting costs. Blister copper produced by the smelter is sold under contract and is recorded as produced in "metal settlements receivable" at estimated realizable value.
- (d) For some years, the subsidiary, Kilembe Mines Limited, has written off all fixed assets acquired during each year, but has not provided otherwise in its accounts for depreciation and amortization of its fixed and intangible assets. Adjustment is made each year by the parent company in its books to provide for its pro rata share of the difference between such depreciation and amortization and the amount of such fixed assets written off. Depreciation on fixed assets is calculated using the straight line method at 10% (used in 1972 and 1973) except where the ore milled in the year depletes the ore reserves by more than 10% and then such higher rate is used.

The carrying value of the investment and the related provision is summarized as follows:

Investment in 6,650 shares (of 20 Uganda shillings par value) of subsidiary, Kilembe Mines Limited, at cost	\$11,224,942
Equity in the recorded earnings of subsidiary less dividends received and receivable to December 31, 1973	6,693,692
Less accumulated provisions for depreciation and amortization of fixed, intangible and other assets of the subsidiary (not recorded on books of subsidiary)	17,918,634
	10,188,280
	<u>\$ 7,730,354</u>



(e) Prospecting, exploration and development expenditures on unknown or unproven ore bodies are expensed as incurred.

2. MINING CONCESSIONS AND FINANCIAL STATEMENT PRESENTATION

The lease on the present mining concessions expired on December 31, 1973. Although negotiations for a renewal or extension on reasonable terms have been in progress since mid-1972, a satisfactory agreement has not yet been concluded. In the event that a satisfactory agreement for a renewal or extension cannot be concluded by Kilembe Mines Limited with the Uganda Government, the mine and its related assets could revert to the Uganda Government, under such terms that compensation to the shareholders of Kilembe Mines Limited could not be guaranteed. However, the company has received written permission to continue mining on the present concessions pending renewal of the lease.

Because it is not possible at this time to predict with reasonable certainty that a satisfactory renewal of or extension to the former mining lease will be concluded, the financial statements for 1973 are being presented on both an unconsolidated and consolidated basis.

3. UGANDA MINING ROYALTIES AND INCOME TAXES

Kilembe Copper Cobalt Ltd. was exempt from payment of Canadian income tax prior to 1972 since it was a "foreign business corporation" under the provisions of the then Income Tax Act. The Canadian Income Tax Act was revised with the result that the concept of the "foreign business corporation" is being phased out evenly over a period of five years beginning January 1, 1972. Although dividends from Kilembe Mines Limited are exempt, interest income, the company's only other source of income, is subject to Canadian tax.

The provision for Uganda mining royalties and income taxes consists of:

	1973	1972
Provision for Uganda mining royalties	\$ 104,841	
Provision for Uganda income taxes	1,113,470	\$ 366,288
Uganda withholding tax on dividends received from Kilembe Mines Limited	118,255	
	<u>\$1,336,566</u>	<u>\$ 366,288</u>

4. STATUTORY INFORMATION

In accordance with the requirements of Section 122.2 of the Canada Corporations Act, 1970 the following information is reported:

	Kilembe Copper Cobalt Ltd.		Kilembe Mines Limited	
	1973	1972	1973	1972
Number of directors	5	5	7	7
Aggregate remuneration as directors	—	—	\$ 9,926	\$ 9,739
Number of officers	5	5	3	3
Aggregate remuneration as officers	\$ 8,200	\$ 9,800	\$ 60,828	\$ 60,292
Number of officers who are also directors	2	2	2	2

5. SUBSEQUENT EVENTS

- (a) Subsequent to the year end, the subsidiary increased its line of credit from U£300,000 to U£1,800,000 (Cdn. \$5,263,000).
- (b) Subsequent to the year end, Uganda currency was devalued approximately 3% in terms of Canadian dollars.

TEN-YEAR REVIEW

	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964
	—	—	—	—	—	—	—	—	—	—
Ore reserves (metric tons)	5,301,000	5,727,000	5,167,000	6,544,000	5,452,000	5,594,000	5,985,000	5,854,000	5,866,000	6,235,000
Ore milled (metric tons)	821,000	907,000	948,000	1,003,000	980,000	932,000	873,000	943,000	943,000	904,000
Grade of ore milled — % copper	1.89	1.73	1.80	1.91	1.93	1.85	1.91	1.91	1.96	2.17
Blister copper produced (metric tons)	9,692	14,168	15,731	16,958	16,563	15,597	14,426	16,098	17,141	18,260
Sales	\$15,174,000	\$15,224,000	\$17,239,000	\$24,488,000	\$26,773,000	\$20,641,000	\$17,927,000	\$21,927,000	\$27,312,000	\$19,184,000
Earnings (loss)	\$ 1,407,000	\$(331,000)	\$(638,000)	\$ 2,795,000	\$ 4,395,000	\$ 2,426,000	\$ 599,000	\$ 3,435,000	\$ 7,251,000	\$ 4,156,000
Earnings (loss) per share	\$.36	\$(.09)	\$(.16)	\$.72	\$1.13	\$.62	\$.15	\$.89	\$1.87	\$1.07
Capital expenditures	\$ 51,000	\$ 254,000	\$ 810,000	\$ 1,380,000	\$ 1,748,000	\$ 2,053,000	\$ 1,407,000	\$ 2,531,000	\$ 2,954,000	\$ 1,902,000
Working capital	\$ 7,916,000	\$ 5,639,000	\$ 4,715,000	\$ 5,691,000	\$ 8,534,000	\$ 6,851,000	\$ 7,466,000	\$ 6,335,000	\$ 6,533,000	\$ 3,298,000
Average copper price per pound	71.0¢	48.7¢	49.4¢	49.6¢	73.3¢	60.0¢	56.4¢	61.8¢	70.5¢	47.2¢

